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SUBJECT: AMERICAN ENERGY FIRM ENJOYS STRONG IPO

REF: A) 03 MUSCAT 1857
B) 03 MUSCAT 219 AND PREVIOUS

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Summary

1. (U) AES Barka, a subsidiary of U.S.-based AES Corporation, recently floated 11.2 million shares of its capital for public underwriting by Omanis and Omani companies. The shares correspond to 35 percent of its paid-up capital, and the preliminary response to this IPO has been extremely positive for the company. AES Barka is the largest independent power and water generation company in Oman and will be listed on the Muscat stock exchange. End Summary.

Going Public

2. (U) AES Barka, a consortium between the AES Corporation (headquartered in Arlington, VA) and local Omani partners, floated 35 percent of its shares on November 21. This initial public offering (IPO), which will close on December 20, falls under the Project Founders' Agreement with the Omani government calling for an IPO within four years of establishment.

Background on AES in Oman

3. (SBU) A government tender for the Barka power plant project opened in April 2000 and was won by a consortium between AES Oasis (a subsidiary of the AES Corporation) and the local Multi Technologies, the investment arm of the Suhail Bahwan Group (ref B). The two partners formed a company (AES Barka) to manage the project on a Build, Own and Operate (BOO) basis with AES owning \$70.72 million USD (85 percent of paid up capital) and Multi Technologies owning \$12.48 million USD (15 percent). The BOO arrangement gives the company the option to renew its initial 15-year contract period for an additional 10 years, with no obligation to sell its shares to the government. In the long run, AES Barka officials believe that the Omani government will move toward a merchant market for electricity (i.e., serving and charging customers directly, without selling to the Omani government as an intermediary), and they envision such a move will happen within the 25-year scope of the Founders' Agreement the company signed.

4. (SBU) After initial contractual difficulties that were resolved with Embassy assistance (ref A), the Barka power plant commenced operation in June 2003. The total project cost was \$415 million USD, which included a \$332 million USD loan from a group of financial institutions. The project has been profitable from day one, which undoubtedly is another attractive feature of the company for prospective investors. It has already distributed \$22.62 million USD of profit as dividends to shareholders during its first year in business, and the company's chief financial officer told Econoff recently the company hopes to distribute another \$12 million USD by the end of 2004.

Joining the List

5. (U) Following completion of the underwriting process, the company will be listed on the Muscat Securities Market early next year alongside two existing independent power companies, United Power managing the Manah Power Plant (operated by Belgium's Trachtebel), and the Al-Kamil Power Company (operated by the UK's International Power).

Road Show

16. (SBU) AES Barka officials are seeking maximum visibility for their company during this IPO phase, so the top brass are fanning out across Oman to drum up additional investor interest in five locations outside the capital.

Comment

17. (SBU) This IPO, limited to Omani citizens and companies, is already attracting strong demand based on the success of AES Barka's initial year of operation. Local analysts believe that two factors are at play: high liquidity in the marketplace (investors are flush), and a lack of alternative investment opportunities in the Sultanate. Market capitalization in Muscat has not grown as dramatically as in most GCC capitals, but the trend is decidedly upward. Such IPO's are helping to fuel an influx of capital into the MSM, and in the process overcome a lingering public skepticism over capital market dealings since the market crash of late 1997. The biggest and most anticipated IPO should occur early next year, when state telecoms giant Omantel floats 30 percent of its shares. By that point, it should be much clearer whether the current capital surge is just another bubble or part of a sustainable growth trend in Oman.

BALTIMORE